

House Energy and Technology Committee
December 20, 2007
Testimony of Tanya Paslawski
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Mr. Chairman, Vice Chairs, and honorable members of the committee, my name is Tanya Paslawski and I am the Manager of Government and Regulatory Affairs for Direct Energy Services, a licensed alternative electric and gas supplier in the State of Michigan. Direct Energy currently serves approximately 60,000 natural gas customers throughout the state, and is active in 11 U.S. state energy markets and 4 Canadian provinces¹. Direct is a subsidiary of Centrica, a UK based energy company with approximately 30,000 employees worldwide serving 33 million customer relationships. I am privileged to have the opportunity to testify before you today.

DTE CEO Tony Early began his testimony last week by noting that the decisions made about this legislation will affect not only our children, but our grandchildren. He is absolutely right. The consequences for Michigan residents and business of turning back the clock to the days of monopoly utilities without the benefit of competition or other alternatives for customers will have dire financial impacts for the future.

Looking Back, Looking Forward

Like everything else, electricity has evolved since its inception over 100 years ago. Small local grid systems grew into state and then regional systems interconnected across the country and with other nations. Advancements in technology, geopolitical events, and environmental concerns have changed the way we look at energy today and into the future. The advent of competition into the electricity market is one broad element of that evolution.

This prospect of competition in electric markets is still relatively new. Just over 10 years ago -- a drop in the bucket compared to over 100 years of electric service in this country -- regulators and legislators began to implement structures that allowed generators easier and more wide-ranging access to those in need of their power and customers access to alternatives outside of their traditional utility system. Just like the rules established for the fully regulated world were not perfect the first time or even now, the rules governing the emergence of competitive markets

¹ Connecticut, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Texas, Alberta, Ontario, Manitoba, and British Columbia.

are not perfect, and improvements should always be considered. But the utilities' request of this committee to turn back the clock and hand them monopoly status so they can assure that their shareholders are paid regardless of what other suppliers and generators can offer the customers of this state is bad public policy. Further, the fact that positive elements of change in this industry, such as greater opportunities for renewable energy and energy efficiency, are being held hostage to this series of selfish utility requests is disturbing. Customers deserve better.

Benefits of Competition

Why is competition important for customers? In a single word – control. Competition puts power in the hands of customers to choose from a variety of pricing plans and companies to find one that best meets their individual needs. Under the monopoly system, customers have a single price available to them. They can take it – or go without electricity. If they have any qualms with the monopoly utility service or corporate governance – too bad. Again, customers can take it or leave it.

In active competitive energy markets, residential customers have access to a wide range of options. These may include fixed and variable rates for periods from 1 month up to five years, 100% green power, 100% wind, seasonal offers, quarterly rates, price caps, even cash-back or customer referral programs. Some examples are attached. And, as a result of this variety, there are over 1 million residential customers choosing an alternative gas or electric supplier in the state of New York alone. In Texas, 40 percent of the residential market has switched to a competitive provider. In the territory of Dominion East Ohio, a utility serving more than 1.2 million customers, 70 percent of the customers are being served by alternative gas suppliers. Residential customers are finding alternatives they want in functioning energy markets.

Commercial and industrial customers have a different variety of options available to them; some specifically customized to best suit the needs of each individual business. For instance, based on a business' risk tolerance and usage patterns, customers can choose to purchase a set amount of energy, or energy during specified time periods, at a fixed price with outside usage at a different price – perfect for customers with particularly high and distinct usage periods. There are swing products that allow customers to choose a tolerance of usage they agree to stay within (10, 20, 30 percent of a set amount) to get a lower rate during that time, and higher outside. Better for

businesses with consistent energy usage but also with the ability to monitor and adjust their daily consumption. Customers can also contract with a supplier for a price they wish to pay and allow the supplier to monitor the market on their behalf and lock in at the rate for them when it becomes available. This is only a short list of the basic types of products offered by competitive marketers and can be uniquely tailored to the needs of the business. Efficient pricing mechanisms like these ensure that customers are paying for power only when they need it or in a manner that best suits their needs, a benefit to companies looking to increase their own competitive position and an attractive consideration for companies considering locating their business in Michigan. Monopolies offer one, maybe two, options for businesses.

Competition in Michigan

Michigan customers also understand the benefits of competition. A survey earlier this year showed that 77% of voters polled said they want choice in electricity providers and 82% of customers said that having a variety of pricing options available to suit their needs was important. Though the residential electric market has not been productive to date, continuing changes such as rate increases already requested by Michigan utilities at the Public Service Commission and policies like rate deskewing, file and use, and utility-only build generation will have residents demanding an alternative to escape the costs. And, as you already know, Michigan businesses and schools have saved money in the competitive market that was then free to be used to help keep product costs down and put more money into classrooms.

Competition in the natural gas industry in the state has also been fruitful for customers. Statistics from last year show approximately 55% of MichCon and 33% of Consumers Energy natural gas load is served by competitive providers. There are currently over 320,000 residential and small commercial customers purchasing gas from choice providers. It's important to note that competition was introduced into the gas industry in the early 1980s. Since then, the problems that arose have been worked out and competition in the market is no longer questioned as a matter of policy.

Instead of turning away from competitive options and returning to the old monopoly system, this committee could embrace policy changes that would increase the opportunities for customers. This year, both Illinois and Connecticut have done just that. They have reduced the barriers to

entry by allowing suppliers access to the billing and collections infrastructures created within the utilities and paid for by customers, which SB 426 introduces to Michigan. These states have also created entities within their public utility commissions that are specifically responsible for providing recommendations on market improvements and creating a level playing field between utilities and suppliers. The competitive market has reacted. In Connecticut, Direct Energy responded with a residential rate fixed for 12 months at a price 5 percent below the utility. In Illinois, several suppliers have recently filed to serve residential customers and are actively exploring entry into that market, including Direct Energy. To be competitive, Michigan policy must look forward, not back, and Direct Energy would like the opportunity to engage in that dialog.

Renewable Energy

Competitive markets have proven positive for the development of renewable and alternative energy sources as well. For example, 85 percent of new wind capacity in the U.S. is owned by competitive suppliers and 71 percent of wind generation built since 2006 was built by independent power producers. It is also undeniable that renewable energy developers and the economic development desired in this state will be more successful if competition continues in Michigan. Those producing renewable energy or equipment for the production of renewable energy will benefit from having many parties in the state vying for their product instead of a single monopoly utility in each service territory. The existence of competition is a must to achieve the most successful RPS possible.

New Generation

The competition that would improve the market for renewables would also improve the market for traditional sources of generation. For this reason, we support HB 4630 and SB 427 that would require new generation with upfront approval to be competitively bid to ensure that customers are getting the benefit of every offer available to them. Under the certificate of need process supported by the utilities, we again have the take it or leave it monopoly scenario.

I'd also like to address the economic failings of the 4,000 MW of new generation built by independent power producers since passage of PA 141 cited by some as a reason to return to the monopoly structure. The opposite is actually true. Those plants were built when the fuel of choice both in terms of cost and environmental impact was natural gas. After the price of natural

gas increased higher than expected, those plants became uneconomic to run. It was shareholders, not ratepayers, who paid the price for an unexpected outcome. Keep in mind, if those plants had been built by monopoly utilities (especially under the certificate of need process) instead of being sold at a loss and now operated at a lesser cost, utility customers would still be paying the full cost to build and operate them, *with a rate of return to shareholders on top*. This highlights the fact that no one has a crystal ball. Wedding the success of Michigan's energy future to what the utilities decide to present to the Commission in the certificate of need process – take it or leave it – will not provide the best opportunities for Michigan customers.

Conclusion

Michigan does not exist in a bubble and there are many things going on in other states and at the federal level that will impact the future of electricity. This committee has the opportunity to make Michigan a model for future growth and stand poised to take advantage of new technologies and other opportunities that will come by retaining the options and flexibility of customer choice. More importantly, you can choose a policy that provides benefits to customers, not just utility executives and their shareholders.

